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Canada. Unemployment Insurance  
Commission

UNEMPLOYMENT INSURANCE IN CANADA

[General publication]



[G-9]

**An Explanation of the Principles  
and  
Main Provisions of the Unemployment  
Insurance Act**

Prepared by

The Unemployment Insurance Commission

Ottawa, October 1950

Revised, January 1953

OTTAWA

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QUEEN'S PRINTER AND CONTROLLER OF STATIONERY

1953





## INTRODUCTION

Since the beginning of the industrial revolution, the structure which governs the employment and economic life of nations has been undergoing a continuous process of change. The pace and extent of this change has been determined by the world-wide depression which followed the first world war, and by the continuing activity of the world economy which has followed it. It is a change that is reflected in the minds of the people of the world, and in the minds of the governments of the world.

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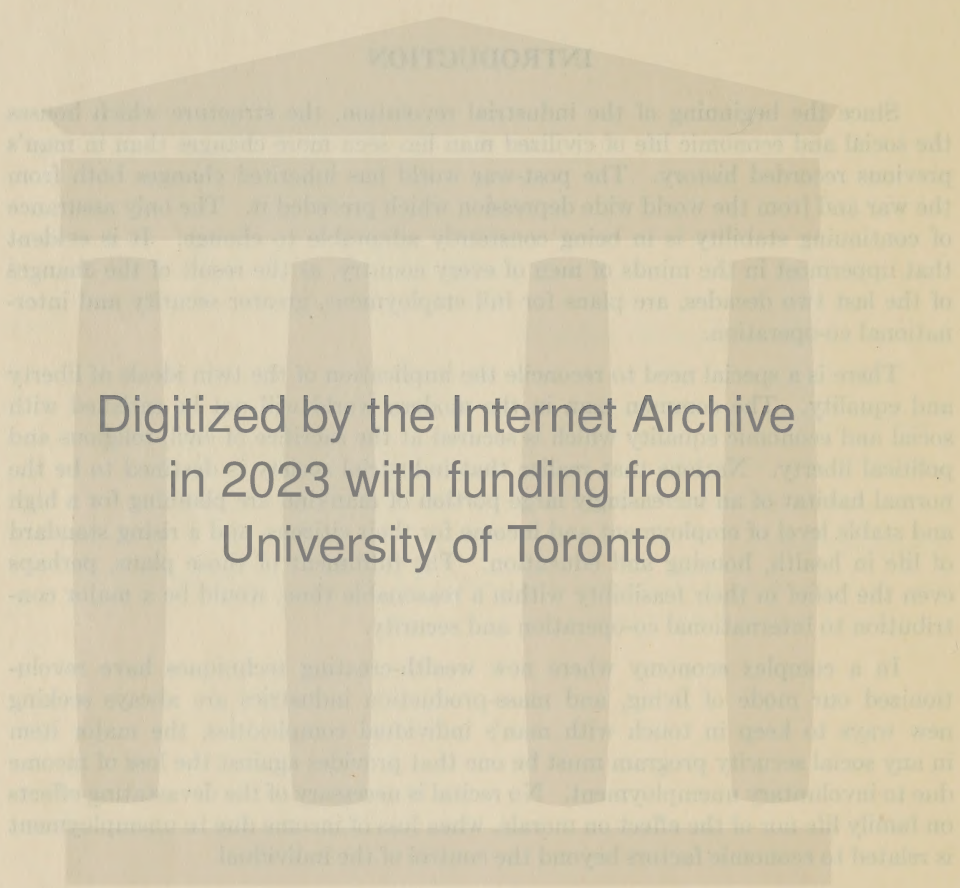


## INTRODUCTION

Since the beginning of the industrial revolution, the structure which houses the social and economic life of civilized man has seen more changes than in man's previous recorded history. The post-war world has inherited changes both from the war and from the world wide depression which preceded it. The only assurance of continuing stability is in being constantly adaptable to change. It is evident that uppermost in the minds of men of every country, as the result of the changes of the last two decades, are plans for full employment, greater security and international co-operation.

There is a special need to reconcile the implication of the twin ideals of liberty and equality. The common man in the modern world will not be satisfied with social and economic equality which is secured at the sacrifice of civil, religious and political liberty. Nations that realize that industrial society is destined to be the normal habitat of an increasingly large portion of mankind are planning for a high and stable level of employment and income for their citizens, and a rising standard of life in health, housing and education. The fulfilment of those plans, perhaps even the belief in their feasibility within a reasonable time, would be a major contribution to international co-operation and security.

In a complex economy where new wealth-creating techniques have revolutionized our mode of living, and mass-production industries are always seeking new ways to keep in touch with man's individual complexities, the major item in any social security program must be one that provides against the loss of income due to involuntary unemployment. No recital is necessary of the devastating effects on family life nor of the effect on morale, when loss of income due to unemployment is related to economic factors beyond the control of the individual.



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## THE UNEMPLOYMENT INSURANCE ACT

The Act of Parliament which set up the Unemployment Insurance Commission to administer the unemployment insurance plan became law on August 7, 1940. Within the following 11 months, the necessary administrative machinery had been organized, and insurance contributions first became payable on July 1, 1941.

The Unemployment Insurance Commission is composed of a Chief Commissioner, nominated by the Government, and two Commissioners, one appointed after consultation with workers' organizations, and the other after consultation with employers' organizations.

While the Commission is required to administer the Act and to organize and maintain an employment service, an amendment in 1946 made it responsible to the Minister of Labour for the operation of the National Employment Service.

The National Employment Service enjoys a virtual monopoly in the field of public employment service with the single exception that in the Province of Quebec the operation of some of the provincial employment offices has continued. As private fee-charging employment agencies are prohibited under laws of the provinces almost uniformly, and as the Federal Government prohibited the setting up of such agencies under wartime powers, few now exist.

## THE NATIONAL EMPLOYMENT SERVICE

The mainspring of a sound unemployment insurance plan is a national employment service, for it is only after the employment office has tried, unsuccessfully, to place the claimant in suitable employment that cash benefit should be paid.

Payment of claims, in all types of insurance, is contingent upon compliance with certain specified terms and conditions; unemployment insurance offers no exception to this principle. Before his claim is approved, an applicant for unemployment insurance benefit must establish the fact that he is available for, and capable of, work. In the application of this test, the employment service is a vital and integral part of the unemployment insurance plan. It should not, however, be assumed that this seemingly negative function of the employment service—i.e., the provision of a job-test for claimants—restricts the service from developing those responsibilities, functions and methods of operation which play so important a part in the formulation of a long-term employment policy.

In the complex economic life of today, direct contact between employer and prospective employee is becoming increasingly difficult to maintain. The specialization of industry demands an ever-growing number of skills and occupations in the employment field and, outside the rural communities, there has been a constant reduction in the facilities for personal acquaintanceship between management and labour. As far back as the late 1800's, the need for a free public employment service became evident in highly industrialized Europe. In North America this system was introduced in the early 1900's, after it became apparent that the last frontier of 'equal economic opportunity for all' had disappeared with the settling of the western portion of that continent. It is evident, therefore, that modern economic organization requires that a government make provision for an employment service through which employers may list their personnel requirements, and workers—unskilled and skilled, technical and professional—may record their employment needs.

The direction of workers to jobs suitable for each eliminates waste in time and effort on the part of both employer and employee. The whole task of fitting individual men and women into suitable jobs falls within the social section of the plan to maintain a high level of employment, the collection of information regarding workers seeking employment and prospective employment opportunities. This is



precisely the work carried out by the free public employment service—the National Employment Service—organized and maintained in Canada as part of the unemployment insurance legislation.

As directed by the Unemployment Insurance Commission, in a statement of policy adopted at the inception of the service, local officers of the employment service:—

- (a) endeavour to refer to suitable employment any employable resident of Canada, either male or female, of whatever calling;
- (b) endeavour to secure suitable applicants to fill any vacancy notified by any employer;
- (c) assist in a general way wherever and however possible in alleviating an unemployment situation, or in suggesting means for the alleviation of such a condition;
- (d) compile adequate statistical information to provide the necessary data for the study of unemployment insurance techniques and procedures and to furnish the basis for planning government projects when and where necessary.

In carrying out these policies, the Act sets out that “It shall be the duty of the Commission to ensure that there shall be no discrimination in referring any worker seeking employment, subject to the needs of the employment, either in favour of, or against any such worker, by reason of his racial origin, colour, religious belief or political affiliation.”

The Unemployment Insurance Commission is at the present time operating approximately 200 local employment offices varying in size from the small unit serving a sparsely populated area, manned by a staff of three or four, to the large multi-sectioned branch located in a thickly populated, heavily industrialized, metropolitan area, operating satellite sub-offices and maintaining a staff of more than three hundred trained employees. But regardless of size, or volume of work, all local offices have the same functions; they are the points of contact with the public, and it is through them that workers are found for employers and jobs assigned to work-seekers. Through a system of clearance, employers' requirements which cannot be filled locally are advertised in a progressively widening range of distant offices, and hence the applicant for whom no suitable vacancy exists in his home-office area may be placed in employment in another part of the country. This is of incalculable benefit to employers in search of skilled or highly trained employees, and to workers of special abilities or rare skills who fail to find any suitable local opportunity.

A nation-wide employment service should take into consideration the needs of the worker and his expectations as to what constitutes an efficient personal service. Under the Canadian plan a thoroughgoing system of staff training is conducted continuously by experts in the field of labour relations in order to ensure that the employment officers are at all times able to meet the placement standards demanded by both the individual worker and by organized labour. Special emphasis is laid on this personal aspect of the work so that the applicant for employment may realize that:—

- (1) he is welcome, and that his problems and needs are understood;
- (2) he is receiving full information about all the suitable vacancies;
- (3) he is being taken care of in a quick and efficient manner;
- (4) he can receive special help if he is physically handicapped, or a new entrant into the employment field or a new arrival in the country.

An efficient employment service should work in co-operation with all of the related agencies in the community, to the end that information may be obtained on changing and growing developments in employment opportunities. Continuous analysis of these developments provides invaluable information to training agencies



and to industry, enabling them to plan in their fields for any on-coming change and thereby avoid any prolonged interruption in employment.

It was early realized that this important feature of an employment service cannot be properly developed unless it is accompanied by thorough analyses of occupations. Steps were taken to compile a dictionary of occupational titles and job descriptions—a scientific classification of industrial occupations—in order that this important ‘economic tool’ might be available to all other interested agencies and afford a sound and accepted basis for wage negotiations. This section of the National Employment Service may be called on in the future to play an important role in the planning of a program of public investment projects to be used whenever it is felt that the nation’s productive system is in danger of serious dislocation.

### **The National Employment Committee**

The unemployment insurance legislation, providing for the establishment of a National Employment Service, requires the appointment of a National Employment Committee to advise and assist the Unemployment Insurance Commission in carrying out the functions of the employment service. Membership of the National Employment Committee includes representatives of workers and an equal number of representatives of employers. Regional and local employment committees, each equally representative of workers and employers, have been established to advise regional and local officers on employment matters and the use of the employment service.

## **UNEMPLOYMENT INSURANCE**

### **Coverage**

The Unemployment Insurance Act provides for the compulsory insurance against unemployment of all persons engaged in the employments described below, unless employed in an employment specifically excepted:—

- (a) Employment in Canada under any contract of service or apprenticeship, written or oral, whether expressed or implied, or whether the employed person is paid by the employer or some other person, and whether under one or more employers, and whether paid by time or by the piece or partly by time and partly by the piece, or otherwise.
- (b) Employment, as aforesaid, under:—
  - (i) the Government of Canada;
  - (ii) the Government of any province, with the concurrence of the province;  
or
  - (iii) any municipal or other public authority;  
other than any such employment as may be excluded by special order of the (Unemployment Insurance) Commission.
- (c) If prescribed for the purposes of this Part of this Schedule, employment outside of Canada or partly outside of Canada, being employment which if it were employment in Canada, would make the person employed therein an insured person.
- (d) Employment in Canada by the government of the United Kingdom of Great Britain and Northern Ireland, the government of any member of the British Commonwealth of Nations, or any foreign government, with the concurrence of such government and the (Unemployment Insurance) Commission. (Part I, First Schedule to the Act.)

In unemployment insurance, voluntary coverage would not provide adequate resources to meet the demands upon its funds in a time of even moderate unemployment. Apart from this it is felt that compulsory coverage is clearly compatible with the social concept of human society whereby the common good must be attained by a common effort or even sacrifice.



Fundamentally, the objective of a system of unemployment insurance as insurance is, or ought to be, to indemnify the wage earner for wages lost through the unavoidable contractions and expansions in industrial activity, whatever the causes and whether of long term or short term. But these expansions and contractions vary greatly in frequency and intensity from one industry to another and as between occupations or segments of the same industry or of industry as a whole. For workers in some occupations, there is in general a high degree of stability of employment, unemployment being a rather remote contingency. At the other extreme, for workers in some occupations or segments of an industry, employment is subject to almost daily uncertainty and beset by frequent short periods of unemployment. Social insurance should not, however, exclude from its purview the 'bad' risks as such, i.e., industries or segments of industries or classes or groups of persons on the basis that the frequency or duration of claims might cause a heavy drain on the insurance fund. (The British Unemployment Insurance plan of 1911 included within its ambit only industries known to suffer from heavy unemployment.) The proper insurance approach is that the plan, in its terms and in the regulations made thereunder, should be of sufficient flexibility to adapt the scheme of benefit rights in a practical fashion to all types and classes of risks.

The grounds for exclusion of certain groups and classes of persons from insurance should be the fact that they are employed outside of industry and, therefore, not subject to the expansions and contractions which characterize industrial activity. There may be some difficulty in determining the border line between industry and non-industrial public services and for this reason, and on broad social grounds, some of these classes may be brought within the plan. On the other hand, the sole basis for excluding any portion of industry should be on account of practical difficulties of properly performing one or more of the following four functions, which are essential to the sound administration of an unemployment insurance scheme:—

- (1) the collection of contributions;
- (2) the settlement of claims;
- (3) the placement of unemployed persons;
- (4) the adequate concurrent inspection and supervision of these operations.

Unless an industry lends itself to the ready performance of these functions by the insuring organization, it is not suited for inclusion under an unemployment insurance plan.

At the present time the following are the main employments excluded under the Canadian Act:—

Agriculture and forestry, fishing, hunting and trapping, private domestic service, service in hospitals and charitable institutions not carried on for gain, private-duty nursing, teaching, the armed forces,<sup>1</sup> police forces, and professional athletes. Persons earning over \$4,800 per annum are also excluded, except where their remuneration is on an hourly, daily, mileage or piece rate, in which cases they are insured irrespective of the amount of earnings. The scope of the Act is not limited by either an upper or lower age limit.

Experience gained in the administration of the legislation has made possible the extension of coverage to industries originally excluded, e.g., transportation by water and by air, stevedoring and lumbering and logging.

### Contributions

The Canadian Act requires the establishment of an Unemployment Insurance Fund to be derived partly from the contributions of employed (insured) persons and partly from the employers of those persons, together with 20 per cent of the aggregate of those contributions from moneys provided by Parliament.

<sup>1</sup> Active service in the armed forces, under certain conditions is insurable, the Government paying both the employer and employee contribution.



The rates of employee and employer contributions under the Canadian legislation are as follows:—

TABLE OF WEEKLY CONTRIBUTIONS\*  
(in dollars)

Range of Weekly Earnings	Rate of Contribution		Total Contributions	
	Employer	Employee		
	\$ cts.	\$ cts.	\$	cts.
Less than \$ 9.00.....	.18	.18		.36
\$ 9.00 to 14.99.....	.24	.24		.48
15.00 to 20.99.....	.30	.30		.60
21.00 to 26.99.....	.36	.36		.72
27.00 to 33.99.....	.42	.42		.84
34.00 to 47.99.....	.48	.48		.96
48.00 or more.....	.54	.54		1.08

\* The daily rate of contribution is one-sixth the weekly rate.

In order to simplify audit and the collection of contributions the employer is held responsible, in the first instance, for both his own contribution and that of his employee. However, he is entitled to deduct the amount of the employee's contribution paid in respect of a certain period from wages paid for the same period.

Contributions are collected by means of weekly stamps (or daily perforated portions thereof), affixed by the employer to the insurance book of the employee. For large employers, modifications of the stamp method are available. One modification makes use of a meter to make stamp impressions on insurance books; another, for employers with large payrolls and a small turnover of employees, permits the use of a special contribution card, remittance being made monthly in bulk, by cheque.

All employers of persons whose employment is insurable under the Act are required to be registered at a local employment office, new employers registering on commencement of operations. Each employer so registered is issued a numbered licence, which is used for identification purposes and for authority to purchase unemployment insurance stamps through local post offices.

Each person insured under the Act is also registered and issued a numbered insurance book in which unemployment insurance stamps, representing contributions, are affixed by the employer. The insurance book issued to the insured person bears the same number year after year, and it is under this number that the records of contributions made in respect of an insured person are maintained.

The employer takes possession of an employee's insurance book on commencement of the employment, and retains it, or the annual renewal of it, until the employment is terminated, at which time the book is handed to the employee.

All insurance books are the property of the Unemployment Insurance Commission, and penalties are provided for any deliberate destruction or defacement. Every employee has the right to inspect his book at reasonable times, while it is in the employer's custody, to satisfy himself that appropriate contributions have been made on his behalf. New insurance books are issued each year.✓

A contribution is payable for each day on which work is done or for which remuneration is payable, with a maximum of six daily contributions in any week. If the working week is less than six days, a full weekly contribution is payable if the employee works or is paid for a full week's work. Where wages are paid on a semi-monthly or monthly basis, contributions may be made for the complete calendar weeks falling within the pay period, plus any unpaid portion of the previous pay period. Alternatively, semi-monthly stamps are available, where it is desired to pay contributions in this way.

In determining the earnings of an insured person for contribution purposes, his gross remuneration, including any payment for overtime, is taken into con-

sideration. The provision of meals, shelter, etc., as part of the contract of service, is also regarded as earnings.

Stamps representing contributions due for each pay period must be affixed in the employee's insurance book within 3 days after the date on which the wages are payable, and immediately on separation from employment. Stamps placed in unemployment insurance books must be cancelled, either by writing or impressing the employer's registration number thereon.

In the Canadian experience the stamp method of collecting contributions has proven entirely satisfactory. Factors which recommend this technique include:—

- (1) Simplicity, particularly for the small employer;
- (2) Ease of audit and control by the administration;
- (3) The position of the stamp in the insurance book constitutes an employment record;
- (4) The provision to the worker of a record of his contributions, not dissimilar to a bank pass-book;
- (5) It lends itself to the extension of coverage to employments of a difficult administration nature.

## **APPLICATION OF INSURANCE PRINCIPLES IN THE CANADIAN BENEFIT FORMULA**

The benefit formula (including the subsidiary rules and regulations) constitutes the framework within which the principles of insurance must be made effective in the field of unemployment, as in other fields. The benefit formula is, or ought to be, of the essence of the whole structure; everything of vital consequence should be summed up therein. It should be such as to fit the scheme in a practical fashion to the shifting conditions and circumstances, insurance-wise, of the persons to whom the scheme is to apply. On the negative side, the benefit formula should be designed to avoid unsound practices and attitudes, on the part of insured persons, employers, the administration, and the public.

There is no insurance principle, in theory or in practice, either of private insurance or of social insurance, that requires that the person for whose benefit the insurance is maintained should pay the whole or any part of the premium or contribution. Further, a social insurance contribution which obtains for the contributor an indemnity on the occurrence of a specific contingency insured against is not a tax.

It is sometimes stated that, under social insurance benefit is paid as a matter of routine, while under assistance benefit is paid in a less routine fashion, i.e., after inquiry as to need. This is to judge from certain outward appearances and procedures without any real understanding of the inwardness or meaning of insurance in general or of social insurance in particular. Some even appear anxious to blur the distinctness as between social insurance and social assistance in the mistaken notion that, by so doing, social objectives may be attained the more quickly and the more effectively. But unless each particular instrumentality for social betterment is used for the purpose it is suited to accomplish, the affairs must go badly astray.

In the nature of things, indemnity cannot exceed the loss suffered through the occurrence of the event, and the loss cannot exceed the interest the person insured may have in avoiding the event. The proper relation of indemnity to the loss, or seeming loss, is a vital matter and depends on the nature of the insurable interest, of the events insured against, of the benefit status, and on the relation in which the insured person stands to these issues. For some risks there has to be a wide spread between the indemnity and the loss, or seeming loss, to give a sound basis for insurance; and many risks are not insurable at all. It is funda-



mental, as a basis for insurance, to determine the extent of the interest as respects each person insured. Where there is no insurable interest, there can be nothing at risk, no event which can cause a loss, and no basis for indemnity or for a lawful contract of indemnity. A contract made in such circumstances is against public policy, or the policy of the law, and void.

In some quarters there may be a feeling, if not a conviction, that social insurance is not quite insurance, that practically anything 'goes' or 'may go' under the insignia of social insurance, perhaps particularly under unemployment insurance; that insurable interest is really irrelevant, if it is thought about at all; that the payment of benefit, or more euphemistically, 'a social minimum of income', is the real objective; that benefit being statutory there can be no wrong in taking it or in paying it.

It is true that one kind of insurance differs from another; that social insurance differs from other kinds of insurance; that one kind of social insurance differs from another; but all kinds of insurance have this in common: if the dictates of the principles of insurable interest, of indemnity for loss suffered, or of moral hazard, are forgotten in framing the benefit rules and conditions appropriate to each particular scheme or in the administration, it may be set down as a certainty that insured persons, and persons who have the right or opportunity of entering insurance, will not be neglectful of the advantages accruing to them through any such forgetfulness.

In any field of insurance, it is not practicable to settle upon appropriate insurance rules and procedure for coverage without first having a clear understanding concerning the insurable interest in the particular field—its nature and characteristics, how it arises, in what it inheres and the ways in which it may terminate; concerning the specific event or events which may be insured against, the happening of which would involve the insured in loss or in the diminution of any right recognized by law; concerning the benefit, or claim, status—how that status may arise, and, if a continuing status, as under most plans of social insurance, the basis for its continuation. Without that understanding there can be no hope of avoiding the moral hazards which must otherwise invade the whole scheme. In most insurance fields these issues are relatively plain and objective, as in the fields of property insurance for example; in the field of unemployment insurance, they are neither plain nor objective and they differ fundamentally from those issues in other fields of social insurance—sickness and workmen's compensation for example.

In broad terms, the contract of unemployment insurance, as embodied in most Acts, amounts to a general undertaking on the part of the insurance institution to assist the insured person in finding employment whenever he may be out of employment and wants re-employment or, failing re-employment, and subject to compliance with certain conditions for the receipt of benefit (conditions which should be, but are not always, designed to give a sound insurance basis), to pay the insured person insurance benefit. These undertakings constitute the insurance of an interest or an implied interest; they do not create an interest and do not define what the interest is, in what it inheres, its extent, how it arises, or how it may come to an end.

The basic ingredient in the insurable interest status of a person insured under unemployment insurance is a contract of service.

Hence it may be set down as a fundamental principle in unemployment insurance that contributions should be paid only for the periods during which the insured person is in fact being paid to fulfil a contract of service. This is the principle followed in the Canadian Act.

It does not, however, in any sense follow that, under unemployment insurance, full coverage should arise the moment the insurable employment is entered upon

as it does under workmen's compensation, and properly so, owing to the very different nature of the insurable interest and the nearly complete absence of moral hazards in that field. As will appear, having regard for the nature of the insurable interest and the moral hazards, and for other reasons the benefit rules and procedure under unemployment insurance ought to be more along the lines followed for sickness (social) insurance if we would avoid serious imposition, and moral, if not actual, fraud, on the fund.

The interest a workman has in the preservation of his arm or his eye or his health must be substantially the same for all workmen and the same at one time as another. But a contract of service, and hence also the insurable interest, under unemployment insurance, may be as tenuous and ephemeral as the contract of casual employment can be, or it may be to all intents and purposes as permanent as almost anything in human relations may be permanent, subject only to occasional interruptions; and in between there are all imaginable variations of contracts of service. In fact this heterogeneity of the contract of service is but the counterpart of the heterogeneity of the industrial medium in which unemployment insurance must function and of the insured persons to whom it must apply in their shifting industrial, social, economic, personal, environment. From the two preceding sentences it is at once clear that, under unemployment insurance, the benefit formula must be of great flexibility if it is to measure in any satisfactory and practical fashion the insurable interest of each and every insured person.

Under workmen's compensation the insurable interest status is fully existant and is under full coverage from the moment the workman goes on the job, and it so continues so long as he is on the job. If an attempt were made to follow this principle under unemployment insurance, it is clear that, having regard for the nature of the benefit status and the manner in which it arises, deriving from the nature of insurable interest status and the risks insured against, persons would in great numbers seek insurable employment for the insurance benefit, particularly in bad times. It is inadmissible that a scheme of unemployment insurance should be so framed that it would upset the economy in that fashion, for it would in fact increase unemployment. Unemployment insurance should be planned for the protection of those who in the normal course find themselves in insurable employment, and not so as to induce persons to seek that employment. The only practical procedure is as under sickness insurance, to require a considerable preliminary period of some recency in insurable employment before any benefit may be enjoyed, a period long enough to prove that the insured person has at least a material interest and to inhibit persons seeking insurable employment for easy (benefit) money. And it cannot be satisfactory that on completion of the minimum preliminary period the insured person should qualify for a maximum or any long benefit period, for to be sound, this would mean the exclusion from benefit of all persons whose proved insurable interest does not warrant the maximum benefit period. It is sound and at the same time must be much more satisfactory to insured persons that the maximum benefit period should be approached progressively as the insured person proves the extent of his insurable interest. This is also necessary in the case of an insured person who is re-establishing his status in insurable employment.

The application of the principles of insurance may be considered specifically with reference to 'builders risks insurance'.

In building a house, the insurable interest of the owner or builder cannot at any time exceed or much exceed the value of the materials and work which have been put into the structure. If a fire occurs while construction is in progress, the insurable interest thereafter will not exceed the value of the remaining structure as a starting point for rebuilding. With repair of the damage and further progress toward completion, the insurable interest will increase. After the structure is completed the insurable interest will remain stable, or substantially so, except



in the event of a loss by fire or of an enlargement or improvement of the structure. Thus, the insurable interest of the owner cannot be known except by reference to the habitation he is constructing or has constructed for himself and the state of repair in which he maintains it and the extent of any enlargements or improvements made from time to time. This general picture would seem to correspond in principle with what ought to obtain in determining the insurable interest under unemployment insurance for the purpose of settling upon the maximum indemnity period.

Subject to satisfying the specific qualifying provisions and rules which determine whether the insured person is currently within the coverage of the scheme, the benefit status arises when the insurable interest status fails in a particular way, i.e., the contract of service must fail owing to lay-off, completion or termination in accordance with its terms or by mutual agreement, the insured person being the while capable of and available for work but unable to obtain suitable employment himself or through the employment office. If the insurable interest status fails in any other way—it may fail owing to many other causes—the benefit status does not arise. These are the requirements in the unemployment insurance schemes in operation in Canada, in Britain, in the United States, and perhaps elsewhere.

There is, then, nothing inherently continuing in the unemployment insurance benefit status. An opportunity for work may come any day, but it may be for only one day or for some other short period. Even in the worst times an opportunity for an unemployed person may arise owing to death, illness or accident of an employed person. These possibilities of frequent change from the insured status and the benefit status, and vice versa, have no counterpart under workmen's compensation and sickness insurance. Consequently, under unemployment insurance there has to be proof for each day of claim that the conditions for the benefit status do subsist.

The possibilities of frequency of change between the insured and the benefit status indicate the possibility of many small losses of employment, especially on the part of some classes of insured persons. In any scheme of insurance where small losses are relatively common, motor car insurance for example, an important and useful insurance technique is the exclusion of some minimum portion of each loss from indemnity. Wage-rates necessarily take account to some extent of irregularity in particular employments, of seasonability and of employment conditions. If in an employment it is fairly normal for the employee to have frequent short spells of unemployment, it would be expected that wage-rates would be higher than for regular employments calling for the same standards of intelligence, experience and performance. This, however, may tend to be counterbalanced by the fact that some persons have a preference in varying degrees for something short of regular employment and may seek out irregular employments, probably persons of low employability. But in any case, it is clear that insurance benefit should not be paid for the total time lost, for that would be to subsidize wages in such employments at the expense of the fund (that is not a purpose of unemployment insurance), and would probably attract too many workers of certain types to the employment, with consequent increase in unemployment and reduction in wage-rates.

Insurance ought to provide against the unforeseen, against the abnormal, not against what is normally to be expected. For example, unimportant accidents to motor cars are so common that they may properly be considered a normal incident of using a car and generally some minimum loss is excluded from each claim. The expense of settling these small claims would be excessive and their coverage uneconomic. Exclusion imposes a desirable, even necessary, degree of caution on the insured owner to avoid accidents in the use of his car; and this tends to give a sound foundation for insurance. It is important that any plan of

insurance should be so constructed that the insured person may have some definite interest in avoiding claims, if he has any control over the events insured against. Otherwise the moral hazards will be high. And so under unemployment insurance, the exclusion from benefit of some short period on each separate claim tends in the right direction and is a sound insurance device.

Even in employments that are rather highly regular, there is almost certain to be some lost time each year, except perhaps for the salaried staff, the same as practically all persons lose a few days each year owing to illness. This has quite properly led to the exclusion from benefit of a few of the initial days, whether under unemployment insurance or under sickness insurance, known as the 'waiting period'. The loss of earnings during some short period may quite properly be absorbed by the individual. To pay benefit for every day lost, whether for unemployment or for sickness, would mean the collection of contributions from each and all for the payment of a benefit which is too much a certainty rather than a contingency; and this would not be a proper insurance function at all and would be an unjustifiably expensive procedure in any event. The exclusion of a 'waiting period' is quite a separate matter from the exclusion of an initial period from each claim. Each exclusion is a desirable insurance device, sound in principle, and the two exclusions, together with the recognition only of actual days of employment as a basis for determining the length of the indemnity period, makes it possible to fit the scheme of insurance in a sound and practical fashion to the varying and shifting insurable interests of the heterogeneous insured population.

Under sickness insurance and workmen's compensation, a long period of disability, including permanent disability, is an understandable benefit status. Under unemployment insurance on the other hand it is not an understandable status in any economic system that a person capable of and available for work should qualify for benefit, permanently, indefinitely, or for any very long period. In any case, benefit for any very long period is not the right therapy. Hence, even for the insured person who has had a good record of employment, even for some years, it seems inadvisable as a practical matter and unsound as an insurance proposition that he should qualify for any unreasonably long benefit period. Furthermore it is desirable that the terms of the benefit formula should be such that the application thereof should determine the length of the benefit period, without any other arbitrary limitation, whatever may be the recognized insurable interest of the individual from the lowest recognized interest to the highest.

The statutory conditions require that the insured person who becomes unemployed and wishes to set up a benefit year<sup>1</sup> must prove that he has contributed for at least 180 days in the preceding two years, and this also means 180 days' work. Of these 180 contributions there must be either 60 within the year prior to claim or 45 within the six months prior to claim.

A minimum period of some recency must be required as evidence that the claimant has become and is still sufficiently attached to insurable employment to have, currently, a material insurable interest therein. For these purposes it could not be sufficient to show that he had at some time been in insurable employment nor that he had come into insurable employment the day before he became unemployed, nor admissible as a practical rule to take account of periods of unemployment, even if contributions had been made during such periods, or of non-insurable employment.

The number of benefit days in any benefit year equals one-fifth the number of contribution days in the preceding five years, less one-third the number of benefit days in the preceding three years.

<sup>1</sup> The benefit year is defined in the Act as follows—

36. (1) Subject to subsection two of this section "benefit year" means, in relation to an insured person who, upon making a claim for benefit, proves that the statutory conditions are fulfilled in his case, a period of twelve months commencing on the day he makes that claim.

(2) If an insured person exhausts his benefit rights in a benefit year, that benefit year shall thereupon be deemed to be terminated.



Under this rule the gradation of benefit days, relative to the bases for determining benefit days, proceeds without any breaks. As between claimants, its practical fairness is probably accepted without question. In addition both sides of the rule, the additive and deductive, should effectively suggest to the insured person the advantages of substituting days of employment for days of benefit, whenever that may be practicable. If a person can succeed in getting work for six days as against accepting benefit for those days, not only is there the advantage of the difference between his rate of earnings and his rate of benefit but the benefit days saved and the additional days worked will mean additional days to him at any time during the succeeding five years should he be obliged to make claim. Properly understood, the accrued benefit rights of an insured person constitute a quasi-savings account, and if he is wise he will increase and conserve his credit in that account whenever he can substitute work for benefit. If by substituting work for benefit, he can lift his average number of weeks of contribution a year from say, 24 to 30, he will have the advantage of wages for an additional six weeks each year and benefit for one additional week each year. For the person who works in excess of 33 weeks per year, the more he can increase his periods of work, the more benefit rights he lays in store for a lean year whenever it may come.

Benefit is not payable for the first five days of unemployment in any benefit year, nor for the first day of unemployment in any claim week, unless there has already been a similar non-compensable day in the same claim week or the immediately preceding employment was for three or less consecutive days. Thus, when the insured person loses only one day in a week that day does not attract any benefit. However, the rule allows him to take casual employment up to three days at a time without losing benefit for the remaining days in the week.

The rate of benefit has been left as the final important term in the benefit formula.

A flat rate of benefit intended to remove want in case of unemployment, if it is not too high for persons in the lower earnings classes, having regard for their insurable interest, is certain to be too low for persons in the higher earnings classes to be considered satisfactory by them. Want is not exactly an absolute standard. A flat benefit limited to a maximum percentage of earnings would be difficult to administer. It would require wage-records to be maintained, except for persons known to be in earnings classes where the limit would have no effect on benefit, or it would be necessary on each claim for benefit to ascertain the recent rates of earning. The latter procedure would slow up the payment of benefit.

The ideal solution of the problem would be a scheme of benefit rates decreasing progressively in relation to the rates of earnings from the lowest rates upwards. This approach would be practicable, in theory at least, for employers prepared to make satisfactory payroll and employment returns. It would not be practicable for many employers, particularly small employers, and would not be satisfactory for the casual labourers of many large employers. In addition, there would be serious difficulties at the administrative end. As a practical compromise a scheme of well-graded earnings classes, each with an appropriate rate of contribution, answers well. By properly determining the rate of contribution of the employee in each earnings class, satisfactory rates of benefit may be determined bearing the same ratio to the employee's average rate of contribution. In addition, benefit is graded in favour of the low-paid workers. The aggregate employer and employee contributions are higher in relation to benefit in the low-wage classes where there is likely to be more unemployment, and therefore more drain on the fund.

In Canada the daily rate of benefit is related to the average daily contribution paid by an employed person during the last 180 days immediately prior to the claim.

The following table illustrates the amounts of weekly benefits paid to a claimant whose contributions are all within one earning class:—

TABLE OF WEEKLY BENEFIT<sup>1</sup>  
(in dollars)

Range of Weekly Earnings	Rate of Benefit	
	Person without a Dependent	Person with a Dependent
	\$ cts.	\$ cts.
Less than \$ 9.00.....	4.20	4.80
\$ 9.00 to 14.99.....	6.00	7.50
15.00 to 20.99.....	8.70	12.00
21.00 to 26.99.....	10.80	15.00
27.00 to 33.99.....	12.90	18.00
34.00 to 47.99.....	15.00	21.00
48.00 or more.....	17.10	24.00

<sup>1</sup> The daily rate of benefit is one-sixth the weekly rate.

In earnings class 1, the rate of benefit for a married person may possibly exceed earnings but a very small proportion of insured persons fall in this class and a very much smaller proportion of them have dependents. The ratio of benefit rate to earnings decreases in passing to the higher earnings classes.

It will be observed that there is a slight differential in the rates in favour of claimants with dependents. It is in harmony with social insurance principles that while the contribution of the insured person should not vary solely by reason of the existence of dependents, the rate of benefit should differentiate between the single claimant and the married claimant or a widow or widower with a child for whose care provision must be made.

To set up a preferential benefit rate in respect of each dependent would quickly lead either to over-insurance or require a rate for single persons so low in relation to earnings as not to be a reasonable indemnity for the loss incurred by involuntary unemployment.

The payment of family allowances in Canada, as of right, to all children up to the age of sixteen, alleviates the financial burden of all parents at all times in a way which neither wages nor unemployment insurance benefit can do. Unemployment insurance is not designed as insurance against need; need exists in some families even when the breadwinner is at work, and is part of the wage situation.

The main terms in the benefit-formula complex have been set down and analysed to some extent. It remains to consider whether the formula as a whole gives a satisfactory basis for sound unemployment insurance, and in particular whether it respects sufficiently well the insurable interest of the insured person.

Persons working only one day a week in insurable employment can never qualify for benefit. It cannot properly be said that they have a material, if any, insurable interest. A person working two days a week, or two days on the average, has to work nearly two years before qualifying for benefit, and in the first benefit year his benefit entitlement is for 36 days. Ultimately he would qualify for 51 days' benefit a year or for about one-quarter of the time not employed in insurable employment; and there would be the usual hurdles in proving entitlement to benefit, e.g., the offer of employment. A large proportion of persons of this class would likely be occupied on their own account or otherwise when not in insurable employment. It is clear that persons in this class more or less permanently cannot have any great insurable interest.

The person who works in insurable employment for three days a week, or on the average for three days, whether temporarily or otherwise, is in insurable employment to a substantial extent. If he has no other employment, which might be the case for dockers for example, his benefit ultimately would be about 45 per cent of his time not in insurable employment. It would take some years after entry to employment to attain that status but thereafter he might continue to draw benefit every year for about 45 per cent of his idle time. This would seem to be entirely commensurate with the insurable interest of such a person, but it would scarcely



encourage him to be satisfied with that standard of employment. Rather, it would seem he would be encouraged to try for a higher standard of employment.

So long as there are any excluded employments or occupations—it would seem there will always have to be some, own-account employment at least—it will be necessary to be on guard against an unduly long benefit period, particularly in the case of persons on the way to becoming established in insurable employment, i.e., persons who have had a short record of insurable employment, and in the case of persons who may really be on the way out of, or to a lower status in, insurable employment. If after a short period in insurable employment an insured person were able to qualify for a relatively long benefit period, it is clear that that fact would amount to a subsidy to insurable employment; that in design the scheme would not have sufficient regard for insurable interest; that there would be some disposition to abandon own-account and other non-insurable employment, at least sufficiently to get and maintain a foothold in insurable employment; that with bad times in the offing there would be a disposition to seek coverage.

It is most undesirable that a scheme of unemployment insurance should in its structure have any such economic or industrial effects to any important extent. The objective should be to provide reasonable protection for those who in the normal course find themselves in insurable employment.

Insurable interest is concerned with the rate of benefit and the length of the benefit period for each type of claimant. As a basis for sound insurance it is a more serious matter if the rate of benefit is unduly high than if the benefit period should be on the long side, for an unduly high rate of benefit militates throughout the whole benefit period, long or short, against the claimant effectively seeking work. The rates of benefit provided in the Act are not likely to be too high except in a very small proportion of cases or in special circumstances.

Whenever there is a question of increasing the benefit rate under an unemployment insurance plan, it should always be borne in mind that nothing can be paid out of an insurance fund in excess of what is paid into it through contributions and interest earnings. In framing a social insurance scheme, the financial foundations should be planned in such a manner that the total contributions from all sources, together with the interest earnings, are sufficient to provide protection for insured persons over a cycle of good and bad years. It is sometimes proposed that the additional cost of increasing the benefit rate should be met by the Government only.

In the long range interest of social insurance in general it should be pointed out that any increase in the benefit rate should only be made within the framework of the scheme, when the contributing parties, which presumably include employers and employees, increase their contributions. If the increase in benefit rate is introduced by merely increasing the amount of the government contribution to the fund, the whole idea of insurance will gradually fade in the minds of the insured population, of the employers and of the administration. So long as the public and the administration clearly understand that there can be no increase in the benefit rate without a corresponding increase in the contributions from employers and employees, then the scheme will be protected against any unwarranted increase in benefit or against any use of the fund other than to provide regular cash payments to qualified, bona fide claimants. If the unemployment insurance scheme is carried on as a joint undertaking of employers and employees, it is believed that both groups will find an added incentive to the maintenance of a spirit of co-operation in their industrial relations.

### **Conditions For the Receipt of Benefit**

The two statutory conditions for the receipt of benefit which a claimant is required to fulfil at the beginning of each benefit year are:—

- (1) That contributions have been paid on his behalf for not less than 180 days in the two years preceding the commencement of his benefit year;

- (2) That of these 180 contributions there have been paid either
  - (a) 60 within the year preceding commencement of the benefit year, or during the period since commencement of the last benefit year, if any, whichever period is less; or
  - (b) 45 within the six months preceding commencement of the benefit year, or during the period since commencement of the last benefit year, if any, whichever period is less.

In addition there are certain conditions precedent to entitlement to benefit which must be fulfilled in respect of each day for which benefit is claimed. They are:—

- (1) That the claimant is unemployed;
- (2) That he is capable of work and available for work; and
- (3) That he is unable to obtain suitable employment.

The Act provides that a claimant shall be disqualified for the receipt of benefit in certain circumstances, as follows:—

- (1) Loss of employment by reason of a stoppage of work due to a labour dispute at the premises at which the claimant was employed, unless the claimant proves that he is not participating in, or financing or directly interested in the labour dispute, and that he does not belong to a grade or class of workers any of whom were employed at the premises and are participating in or financing or directly interested in the dispute. The disqualification lasts as long as the stoppage of work continues.
- (2) Refusal without good cause of an offer of employment; neglect to avail himself of an opportunity of suitable employment; failure without good cause to carry out written directions given with a view of assisting him to find suitable employment; and failure without good cause to attend a course of instruction or training. The maximum period of disqualification is six weeks.
- (3) Loss of employment by reason of his industrial misconduct. The maximum period of disqualification is six weeks.
- (4) Voluntarily leaving his employment without just cause. The maximum period of disqualification is six weeks.
- (5) While he is an inmate of any prison or public institution, or while resident outside of Canada (except where benefit is payable under the provisions of a reciprocal agreement entered into between the Government of Canada and the Government of the United States of America). The disqualification continues while he remains an inmate or resides outside of Canada.

There is no curtailment in the benefit rights where a period of disqualification is imposed; rather it is a postponement of the payment of benefit.

The Commission is empowered to make regulations requiring additional conditions for the payment of benefit to persons who are employed in industries which are seasonal and to married women. Regulations now effective provide that workers in transportation in inland waters or in stevedoring, or in lumbering and logging, must meet additional contribution requirements or show off-season attachment to insurable employment. Married women during the first two years after marriage must prove attachment to the labour market after marriage.

### SUPPLEMENTARY BENEFIT

In order to make provision for recurring higher levels of unemployment during the winter months, particularly among fringe groups which have difficulty in meeting the qualifying conditions, a plan of supplementary benefit was instituted in 1950. Those whose benefit year had become exhausted subsequent to March 31st prior to claim could draw supplementary benefit up to the number of days in the preceding benefit year. Those who had 90 contributions or more subsequent



to March 31st preceding their claim could draw benefit for  $\frac{1}{5}$  of the number of contribution days. This supplementary benefit may only be paid between January 1st and April 15th in any year, and the rate of benefit is roughly 80% of ordinary rates.

### **Adjudication of Claims for Benefit**

The responsibility for the adjudication of all claims for insurance benefit rests in the first instance with special adjudicating officers of the Unemployment Insurance Commission known as insurance officers. All claims for benefit must be considered by insurance officers who are located at local offices across Canada.

If, on examination of a claim for benefit, an insurance officer finds that the statutory conditions are fulfilled, he must declare that a benefit year is established. When an insurance officer is not satisfied that a claimant has fulfilled the statutory conditions, he may declare that a benefit year is not established, or he may refer the claim to a court of referees for decision. Notwithstanding that a benefit year has been established, an insurance officer may declare a claimant to be disqualified for the receipt of benefit for a period on the ground that the claimant does not fulfil all other conditions of entitlement, or is subject to one of the disqualifications provided for in the Act. Alternatively, he may refer the claim to a court of referees for its decision.

In any case where a claimant is not satisfied with a decision of an insurance officer, he has the right to appeal to a court of referees. The appeal must be made within 21 days of the receipt by him of the insurance officer's decision. A court of referees is composed of one or more representatives of workers and an equal number of representatives of employers, with an independent chairman. Panels of members for courts of referees are maintained at all necessary points in Canada, and the members are called for service in rotation.

A court of referees considers claims for benefit which have been referred to it by an insurance officer, and hears appeals against decisions of insurance officers. The procedure on a hearing by a court of referees is informal and the claimant is usually present to assist the court in bringing out any further facts of the case. The claimant may be represented by an official of his union, if he so desires. An officer of the Unemployment Insurance Commission is present to assist the court in any way possible, but legal counsel is not retained. The Commission does not interfere in any way with the independence of the court.

A decision of a court of referees is final in some instances but under certain circumstances an appeal may be made to the Umpire, who is appointed by the Government from amongst the judges of the Exchequer Court of Canada and of the Superior Courts of the ten provinces of Canada. An appeal lies to the Umpire—

By an insurance officer, in any case,

By the claimant's union, in any case,

By the claimant, without leave, where the decision of the court of referees is not unanimous,

With the leave of the chairman of the court in any case.

An appeal to the Umpire must be brought within six months of the date of the decision of the court of referees. The decision of the Umpire is final.

### **The Unemployment Insurance Fund**

The contributions made by workers and their employers, together with the 20 per cent of their combined contributions added by the Government of Canada, are credited to the Unemployment Insurance Fund. The only payments which may be made out of this Fund are for insurance benefit to which insured persons prove their entitlement, and the refund of contributions paid in error.

Credits in the Fund which are not currently required for the payment of benefit are invested in bonds issued or guaranteed by the Government of Canada, and the interest credited to the Fund. The responsibility for investing these credits is placed upon the committee of three—one member nominated by the Minister of Labour, one member nominated by the Minister of Finance, and the Governor of the Bank of Canada.

The Unemployment Insurance Act, 1940, makes provision for the appointment by the Government of the Unemployment Insurance Advisory Committee, consisting of a chairman and not less than six nor more than eight other members, of whom at least one must be representative of workers and an equal number representative of employers. The usual term of office is five years.

The functions of this committee are to report annually on the condition of the Unemployment Insurance Fund. In addition, at other times when the committee considers the Fund is or is likely to be and to continue to be insufficient to discharge its liabilities, it is required to make a report and recommend such changes in the provisions relating to the payment of contributions and benefit, including rates of contributions and of benefit, as the committee considers will make the Fund sufficient.

The Unemployment Insurance Advisory Committee may also be requested from time to time to investigate and report upon the advisability of extending the coverage of the Act to excepted employment.

The Unemployment Insurance Commission is empowered to refer to the committee for consideration and advice any question relating to the operation of the Act.

## ADMINISTRATION

In addition to contributing to the Unemployment Insurance Fund to the extent of 20 per cent of the joint contributions of employers and insured persons, Parliament provides the moneys necessary to meet the costs of administration. This means that the only payments made from the Fund are those necessary to cover claims for insurance benefit and refunds of contributions which have been made in error.

The administrative organization which directs the machinery of unemployment insurance in Canada is headed by a Commission known as 'The Unemployment Insurance Commission'. The commission is composed of three members: a Chief Commissioner nominated by the Government and two Commissioners, one appointed after consultation with workers' organizations and the other after consultation with employers' organizations.

Under the Commission and reporting direct to it is an Executive Director. For purposes of administration, Canada is divided into five regions. At the head of each region there is a regional superintendent who reports to the Executive Director in Ottawa, where the head office of the Commission is located. All the local offices in each region are under the jurisdiction of the regional superintendent. Thus, it will be seen that while Ottawa exercises a supervisory control over the whole of Canada, each region operates more or less as a separate unit.

The head office organization is divided into two main branches, one dealing with employment and the other with insurance. The insurance branch is engaged specifically in administering those provisions of the Act which are intended to apply insurance principles and techniques to the uncertainties of employment. The duties involved in this task fall very readily into four groups—coverage, contributions, audit and claims—which operate as separate divisions under the Director of Unemployment Insurance. The insurance divisions at the head office in Ottawa maintain parallel contact with the equivalent divisions of the branch in the five regional offices, which are situated at five convenient centres across the country.



The coverage division is responsible for conducting the necessary research work in order to provide the background for the administrative rulings which are issued from time to time by the Commission relative to the scope of the Act. These rulings are in the nature of opinions arrived at on the basis of the information supplied when inquiries are received on a matter of coverage. If the inquirer is not satisfied with the opinion which has been given in any particular case he is entitled to ask for a formal decision by the Commission, and thereupon the Commission orders the coverage division to make a special investigation of all aspects of the case as a basis for consideration. Persons aggrieved by the formal decision of the Commission may appeal to the Umpire for a decision; the decision of the Umpire is final.

Since the Commission is empowered to extend coverage under the Act, chiefly by withdrawing the exceptions granted to certain persons and types of employment, the coverage division is called on from time to time to supervise the carrying out of field surveys in certain areas or in certain industries in order to ascertain the advisability of providing protection against the hazards of unemployment to a larger field of employees.

In order to keep abreast of the social thinking throughout the world the coverage division undertakes a constant study of the various social security systems in other countries. Interest centres particularly in such developments in North and South America in the belief that many countries in the New World are grappling with social and economic problems which display a considerable similarity. Apart from the up-to-date social information which is thus made available, this work is particularly important in view of the fact that the Commission may at times deem it advisable to recommend to the Government of Canada that an agreement be entered into with the government of some other country to establish reciprocal arrangements relating to unemployment insurance.

In the post-war period there has developed a greater awareness of the need for international co-operation in every field of human activity. Canada has already established reciprocal agreements with the majority of the State Unemployment Compensation Boards in the United States to preserve the benefit rights of insured persons who have changed their place of residence from either country to the other. As a further result of these agreements, protection against unemployment has been provided for persons engaged in transportation by air—an industry in which a very large proportion of the employees operate in international services. Originally, transportation by air was excluded from the plan on account of this administrative difficulty. As commercial aviation is on the threshold of a great expansion, indicating that an increasingly large number of persons will be engaged in the industry in the future, this measure of international co-operation in social security can serve to unite more closely the peoples of the two countries.

On ocean-going vessels the difficult administrative problems of jurisdiction and reciprocity in connection with the insuring of seafarers can best be solved through international agreements after each member-nation has introduced an unemployment insurance plan.

The contributions division of the insurance branch administers those provisions of the Act which are concerned with the collection of unemployment insurance contributions, and supervises the operation of the technical procedures in the manner authorized as respects insurance stamps, meter impressions and cash paid direct to the Fund through bulk payment plans. Regulations are laid down governing the manner, time and conditions for payment of contributions. It is the duty of the contributions division to see that these regulations are reduced to clear and concise instructions for the direction of the employer. Provision has been made for the refunding of contributions which have been paid in error. As this step affects not only the financial rights of the employer but also the status of the employee as an insured person, the contributions division is called on to

make a thorough examination of all claims for refund before recommending them for payment.

In the regional offices the contributions division is responsible for the registration of employers and employees and for the issuance, custody and replacement of insurance books. In order that unemployed persons may receive benefit payment at the local offices without any undue delay, the regional contributions division is so organized and conducted that the rate and duration of benefit may be computed quickly and accurately according to the rules laid down in the Act. After the insurance books have been renewed at the end of each fiscal year, the books which have expired are forwarded to the contributions division at the regional office where they are filed by the insurance numbers before being 'processed'—i.e., the number of days of insurable employment and the amount of the employees' daily contribution, as shown by the stamps or meter impressions in each book, are transferred to an individual record card for handy reference whenever a claim for benefit is filed.

The audit division of the insurance branch is directly concerned with the position of the employer in relation to the Insurance Fund. One of the factors which determines whether an industry is suitable for inclusion under an unemployment insurance plan is the manageability of that industry insurance-wise. If an industry does not lend itself to the application of insurance administrative procedures, it is unsuitable for social insurance protection. To this end it is most important that employers in an industry should be so located and operate in such a manner that the field audit staff of the insurance branch may readily inspect their accounting and wage records.

The Canadian scheme, under which contributions are mainly collected by the affixing of stamps in the insurance books of the employees, embraces all those small operators whose business records and procedures would normally be considered inadequate to qualify them for inclusion in a social insurance plan. While this is desirable both from a social and economic standpoint, it does, however, necessitate periodic visits to the premises of a relatively large number of employers whose individual contributions to the Fund are so small as to suggest that they do not justify the administrative expense of the travelling and audit time involved. This criticism, though well founded from the viewpoint of a commercial venture, cannot be sustained in connection with a social plan intended to provide coverage where it is necessary and not merely where it is profitable.

It may be conjectured that the stamp method is conducive to fraud or even to counterfeiting of the stamps of high denomination. Basically, this problem is one that calls for control through well-developed auditing techniques conducted by an alert and well trained staff of field auditors. Experience has proved that the stamp method lends itself very readily to an efficient, though simple, audit procedure in which the individual insurance books are compared with the payroll entries. The audit division is entrusted, therefore, with the task of ensuring that unemployment insurance contributions are properly made in respect of all insurable employees in the country. Unless contributions are made by all employers of insurable employees, the actuarial foundation of the insurance plan may be seriously endangered.

The relationship of the benefit rate and the amount of the contribution is predicated upon the assumption that delinquency on the part of the employers would be kept at such a minimum that loss of incoming funds would only arise through the bankruptcy of an employer.

The audit of each employer's stamp purchases provides a valuable method of detecting a tendency towards delinquency which can usually be checked before it has gone far. On the other hand, although the employee is entitled to examine his insurance book periodically in order to determine if contributions have been made on his behalf, it was not expected that this right would be generally exercised: the audit division protects the employee from his own lack of attention in this matter. Moreover, since contributions are the bases of benefit claims, irre-



gularities at this source result in subsequent incorrect benefit payments and often occasion serious adjustment problems. The field staff of auditors, therefore, make periodic examinations of the books and records of all employers subject to the Act, with the two-fold objective of protecting the Insurance Fund and safeguarding the employees' benefit rights.

The audit staff are frequently requested to conduct special investigations concerning wage scales and working conditions in certain areas and to carry out, in co-operation with the coverage division special surveys which have been recommended by the Commission in connection with specific aspects of the scope of the insurance plan. From their close relations with employers, the field staff are in a position to create goodwill towards the plan and to promote the work of the employment service, by showing employers how their interests may be served by the facilities of the Commission.

The claims division of the insurance branch is specifically concerned with the supervision of disbursements from the Insurance Fund.

Insured workers, who are unemployed and have fulfilled the conditions laid down in the Act are entitled to a weekly payment for a specific number of weeks. The claims division supervise these payments and are responsible for seeing that each claimant secures his statutory rights under the plan. However, since three groups contribute to the Unemployment Insurance Fund, all three have an interest in its proper administration. Therefore, in dealing with an individual claim, the rights of all three contributors must be considered. It is the duty of the claims division to see that the proper balance is maintained by instituting procedures whereby justice is done to the claimants without any danger of unwarranted claims being paid from the Fund. This division functions mainly through the network of local offices located at strategic employment points throughout the Dominion. Claims are accepted at these offices and forwarded to adjudication officers. At this level a thorough examination is made of the conditions surrounding the employee's separation from his employment before the claim is approved for payment.

Detailed instructions explanatory of those sections of the Act and Regulations which govern the payment of claims are given periodically to these adjudicating officers by the head office claims division. In this manner steps are taken to ensure that no element of bias creeps into the interpretation of the law and that settlements are made in a prompt and efficient manner. When a claimant is not considered by an insurance officer of the claims division to be entitled to benefit, the claimant has a right of appeal to a court of referees. In certain cases a claimant may appeal from a decision of a court of referees to the Umpire. The decision of the Umpire is final.

In the brief period of its life, this nation-wide unemployment insurance organization, with branch offices in daily contact with thousands of employers and employees, has become a recognized part of the Canadian economy. A large fund has been built up when the level of employment was high, and the country now faces the future with the confidence which this substantial Insurance Fund inspires.

When the plan was first introduced, there were many people, both employers and employees, who expressed doubts as to the value or even the need for such a plan in a young and undeveloped country. To-day, those doubts have all been dissipated: employers see only too clearly that industry must have time to change and that temporary lay-offs are inevitable; the Canadian workers who are protected by the scheme appreciate the provision which now enables them to bridge the financial gap between one job and another. They are particularly gratified to know that, when unemployed and qualified for benefit, they will receive benefit as a statutory right, regardless of means, and that the small weekly contribution which is deducted from their wages guarantees them a reasonably high benefit rate owing to the fact that the plan is compulsory and the cost of the insurance, therefore, is spread among the greater part of the working population of the country.

## THE CONTRIBUTION OF UNEMPLOYMENT INSURANCE TO THE MAINTENANCE OF A HIGH LEVEL OF EMPLOYMENT

It is true that the only basic answer to unemployment is the opportunity to obtain gainful employment suited to one's capacities. With this in mind, it is the aim of most countries at the present time to institute both economic and social measures designed to prevent this opportunity from decreasing to such a degree that widespread unemployment results. The initiating and carrying out of a such an economic program does not therefore fall directly within the purview of a department of government such as the Unemployment Insurance Commission of Canada which is concerned with the placement of unemployed persons in suitable employment and when that is not possible, with the administration of an unemployment insurance plan. There are, however, certain provisions in the Canadian unemployment insurance plan which, coincidentally, fit in with that social action which is conceded to be an integral part of any scheme to maintain a high level of employment. These provisions may be referred to briefly at this time.

Private consumption has been listed as one of the chief components of the level of expenditure indispensable to the maintenance of widespread employment at a suitable standard of wages. The propensity to consume is generally highest in the low-income brackets to which wage earners (i.e., the insured population) belong. While the maintenance of purchasing power is not a specific purpose or object of social insurance, nevertheless, the cash benefit paid out to claimants during any period of general unemployment does, of necessity, help to bolster the declining purchasing power of the nation at that time and thereby conduces to the stabilization of industry as a whole. In this connection, however, it cannot be too strongly stressed that any easing of the economic situation, resulting from the distribution of cash benefit under an unemployment insurance plan, is merely coincidental, the purposes of such a plan being to indemnify for specific and unforeseen losses. It must always be borne in mind that, under a true scheme of social insurance, the cash indemnity or benefit should for practical reasons always be less than the loss of earnings.

In most new countries there is a tendency to rely on immigration to provide the necessary skilled workers. It is doubtful if, in the light of present world affairs, such a policy can be relied on for the future. If a country does not train its own complement of skilled industrial workers, it will ultimately develop an increasing measure of unemployment amongst the unskilled classes, since an adequate skilled group is necessary before the unskilled workers can be successfully absorbed into industry. An indication of this unfavourable trend was disclosed in the building construction industry in North America during a recent survey of the housing shortage. Failure on the part of industry to ensure its own future by the adoption of the apprenticeship system must ultimately lead to unemployment. Because this system was used several hundred years ago, it does not follow that it is obsolete today. One might rather contend that it has successfully stood the test of the years, because it is based on a fundamental principle of human society whereby the young must be trained to take over the duties and responsibilities of the old. If industry cannot be persuaded to maintain the apprenticeship system on the grounds that it is thereby taking part in the training of the nation's most precious heritage—her youth—it should at least be realistic enough to do so as an elementary means of rejuvenation and self-preservation.

The general policy of encouraging training schools as a means of maintaining full employment is supported by those provisions of the Canadian Unemployment Insurance Act which relate to the conditions for the receipt of benefit. A qualified claimant continues to receive his weekly cash payments when attending any course of instruction or training approved by the Commission which he may have been directed to attend by the Commission for the purpose of becoming or keeping fit for entry into or return to employment. In this changing world, more than ever,



encouragement will have to be given to training and retraining programs which are designed to meet the needs of workers who will have to be re-established in employment or provided with new employment.

During the war years, with the concomitant tension on the home front arising out of personal anxiety, long hours of work, ample opportunities for employment and lack of commodities which the workers were financially able to purchase, industry was plagued by absenteeism. With the return to more normal living conditions it is expected that employees will be induced to co-operate more readily in the industrial program of full peacetime production if they realize that, in the case of a temporary lay-off, they are protected by an unemployment insurance plan whereby benefit is payable for a period which is related to the number of days they have worked.

If the productivity of labour can progress, it will be easier to establish a high employment policy. This inducement to regular attendance at the factory or place of employment is contained in the ratio rule of the Canadian plan which determines the period for which benefit is payable. This provision also offers an incentive to the day labourer to avail himself of each and every opportunity to perform a day's, or a portion of a day's, work which he might otherwise consider too unremunerative or too inconvenient to accept.

While excessive movements of workers from one area to another are generally to be avoided, it is obvious that, in the interests of a balanced socio-economic structure, some organized mobility of labour will be necessary in most countries. In this task a national employment service offers to employers and workers alike the complete facilities of its nation-wide chain of offices. This suggestion of the mobility of labour must not be construed as recommending a step in the destruction of industrialism in order to go back to the land or in order to increase the number of independent owner-producers in the more sparsely populated areas of a country: it might well be argued that, in the technical conditions of modern life, such a program would merely tend to increase the well-being of the few at the expense of the many. It is felt, however, that a shifting labour reserve may be not only a natural, but an essential feature of production in those parts of North and South America where the development of natural resources demands a large supply of vigorous and mobile labour. This mobility of labour can be more readily achieved when the workers are protected by unemployment insurance which encourages them to move away from home without fear of being financially stranded should they ultimately become unemployed in their new environment.

Some social planners have long held that the irregularity of employment can be overcome in large measure, but it will often involve a reorganization of the methods and scope of all business in a particular trade as well as a reorganization of the business of individual concerns. The modern approach to this suggested reorganization is an ever-growing demand by labour for a guaranteed annual wage or a guaranteed annual period of employment. Without entering into the pros and cons of the economic feasibility of this program on any extended scale, there are evident signs that an increasingly large number of employers are beginning to accept it, not only as a social necessity, but even as a 'democratic imperative'. It is felt that, by evening out employment, the resulting steady demand will influence the tempo of production to such an extent that cyclical depressions will be reduced to a minimum. In those cases where only a partial annual guarantee can be hoped for, it is becoming the policy of organized labour to use the duration of benefit under an unemployment insurance plan as the bargaining point on which to hinge the demand for a partial annual guaranteed period of employment.

There is no principle of insurance of any kind that requires the beneficiary to pay the whole or even any part of the premium, and the Canadian plan is fundamentally an insurance plan although the insurance fund is built up by moneys received from the employee, the employer and the Government. This tripartite acceptance of social responsibility in the matter of unemployment dominates the

administrative procedures of the Canadian scheme, with the result that good employer-employee relations are engendered through the realization that common interests exist among those who contribute to a common fund. Stemming from the belief that an honourable and truly democratic partnership is the best way to administer a social plan, representatives of employers and employees hold office in the following important administrative sections of the Canadian unemployment insurance plan and are appointed only after consultation with organizations representative of employers or employees:—

- (1) The Commission of three which administers the Act;
- (2) The courts of referees to which a claimant may appeal an adverse decision of an insurance officer;
- (3) The Advisory Committee which supervises the financial condition of the Insurance Fund, and suggests amendments to the insurance features of the Act;
- (4) The National Employment Committee which advises and assists the Commission in carrying out the purposes of the employment service; and
- (5) Regional and Local Employment Committees to advise and assist Regional Superintendents and Local Office Managers.

The representative constitution of the above administrative bodies is an acknowledgement of the growing importance of good management-labour relations in the effort to achieve full employment through efficient production. It is felt that industrial conditions will not be stabilized until workers are accepted as full-fledged and responsible partners in a joint undertaking—i.e., the production of a higher national income. One of the indirect effects, therefore, of a soundly constituted unemployment insurance plan is the leadership which it provides towards the introduction of a measure of industrial partnership: it is believed that this approach, and this approach alone may ultimately be expected to bring to an end that industrial conflict which is so inimical to any plan that may be devised for the achievement and maintenance of full employment.

This partnership of management and labour is particularly necessary if society is to achieve a widespread measure of employment for its members without a corresponding high degree of compulsion by the state. Intelligent planning and mutual co-operation for the common good can be relied on to avert any tendency to the lopsided production which some economists are only too ready to predict as the inevitable result of a high level of employment among free men. To admit that this objective cannot be attained under a system of free enterprise is tantamount to discounting the value of all social measures and reverting to the outlook which dominated the early days of modern industrialism when men were turned into a cheap labour commodity by the iron law of wages.

Industry has at last begun to realize that it is merely a matter of technical common sense and business efficiency to treat the worker, not as a national item of productive cost, but as a human personality with consuming power, who has fundamental rights to lead a normal life according to the natural law. "On the earlier teaching of the economists, moral and technical considerations in regard to the distribution of wealth had appeared to be in conflict. Moral considerations suggested the desirability of a more equal distribution of wealth, while technical considerations appeared to require great inequality as the condition of adequate saving. On the newer teaching of the economist . . . moral and technical considerations unite in favour of substantially greater equality of wealth than has obtained . . . in the past".<sup>1</sup> Once this belief has been firmly established it is only a short step to the realization that management on the one hand and labour on the other are not serving opposing interests but have a common destiny inextricably bound up in the progress and efficiency of the industry. It is "the new productive Middle Way" and there appears to be no other way which, at one and the same time,

<sup>1</sup> Sir William H. Beveridge: "Full Employment in a Free Society".



will solve the problem of high employment, which in the final analysis, is the triple problem of efficient production, adequate consumption and satisfactory distribution of the wealth which lies at our doors.

The foregoing analysis of those features in the Canadian unemployment insurance scheme which coincide with the furtherance of a high employment level must not be construed as indicating that this type of social insurance plan may be designed to achieve that object either directly or indirectly. It cannot be too strongly stressed that the one purpose of an unemployment insurance scheme is to indemnify the insured person in the event of his experiencing an interruption of earnings on account of involuntary unemployment. It is unsound, therefore, to attempt to turn such a scheme into an instrumentality for promoting other social objects, such as welfare assistance according to individual need, maintenance of national income, or provision against loss of earning power through either old age or disability. Although these are all laudable social objectives, they should be attained by separate and distinct plans which can, and do, function side by side in our socio-economic system.





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